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First National City Bank Monthly Letter

Business and Economic Conditions

1955

New York, September, 1955

General Business Conditions

THE summer has passed with little let-up in the booming pace of business. The expected "summer slump" turned out to be less than usual, and now business men are looking optimistically toward the fall and a seasonal spurt in activity.

Virtually all comprehensive business measures were at record levels when last reported. In July, employment totalled 65 million persons for the first time, and over-all construction activity once again set a new high record. New all-time highs were registered also in seasonally adjusted retail sales and industrial output. The Federal Reserve index of industrial production rose 1 point to 140 (1947-49 = 100) after allowing roughly for the erratic fluctuations of the vacation season. Estimates of aggregate income and production have been boosted repeatedly to new records.

In certain lines, notably steel and automobiles, production dropped off from the full schedules maintained during the spring. Steel mill operations averaging 89.7 per cent of capacity in August were above July but below the peak of 96.6 in May. Most of the decline is attributable to shutdowns for long-deferred repairs and to disruptions caused by heat, vacations, and labor disputes. There has been no discernible let-up in demand.

Automobiles are entering the model change-over period, but with the production race continuing right down to the end of the model year. Last year, output slowed more abruptly at this season to allow dealers to work off stocks before new models appeared. This year dealers' inventories are higher – a record-breaking 700,000 plus of new cars in early August – and some major new model introductions have been scheduled for September. Nevertheless, production of '55 models still amounted to over 600,000 cars in August and total output, including early '56 models, is projected at some 470,000 in September, according to Ward's.

At this rate the motor industry by the end of September will have turned out over 6 million new cars, more than in any full year except 1950 and '53.

Leveling-off Indicated

Through July at least, the seasonal declines in steel and automobile output have not prevented production generally from setting new high records. Strength in other durable goods lines and in paper, chemicals, and coal has contributed to the advance. The rise in output in recent months has been widely distributed, though more moderate than that in the first part of the year. With most of the slack in the economy already taken up, and with the motor industry taking a breather during its change-over period, industrial activity, temporarily at least, may be entering upon the generally anticipated leveling-off period, but at a pace much faster than dreamed of earlier in the year. There is still, however, no clear evidence that the cumulative

CONTENTS

forces of the boom have been weakened. In August the National Association of Purchasing Agents survey reported that new orders received by American industry were at the highest level for that month since 1950 when the outbreak of the Korean war precipitated a deluge of buying.

Some support for the thesis of a leveling-off appears in recent figures on home-building, over the past year one of the major propelling forces behind the boom.

Approximately 115,000 new nonfarm homes were started in July, down one-eighth from the April-May peak of 132,000. The July figures are still equivalent to a seasonally adjusted annual rate of better than 1.2 million, which would be more than in any calendar year except 1950. While it is true that one swallow does not make a summer, and the building figures may yet turn up again, housing officials noted that the June-July decrease "probably reflects some voluntary adjustment in mortgage credit".

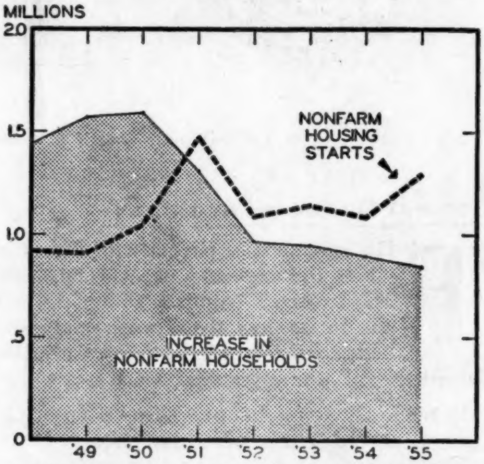
This would imply further reductions in home-building to come, since the July figures reflected neither the tightening of VA and FHA mortgage terms on July 30 nor the general restraints on credit in August. Ordinarily there is considerable lag between arranging financing for a project and the actual start of construction.

Considerable strength is still evident in the housing market, even though the tighter mortgage money may squeeze out some marginal buyers and builders. Contract awards for future residential construction (as reported by F. W. Dodge Corporation) still show sizable year-to-year increases, although in the last few months they have declined somewhat more than seasonally. The Federal Reserve Board reports that the proportion of families planning to buy new homes this year or next is larger than in other recent years.

Housing Starts vs. Household Formation

Studies published last month by the Census Bureau, based on a sample survey as of April 1, 1955, indicate that the gap between nonfarm household formation and the number of new homes started is much narrower than had been indicated by earlier figures. Those released last January covering the years ended April 1953 and '54 showed a drop from around 830,000 to only 560,000 in total (farm and nonfarm) household formation. The latter, contrasting with 1.2 million nonfarm homes started in 1954, was widely cited as evidence that residential building was running at an excessive rate.

Comparison, however, of *nonfarm* dwelling starts with *nonfarm* household formation, made available for the first time with the recently published 1955 estimates, brings the figures nearer together. For the year ended April '55, they are respectively 1.3 million homes and 844,000 new households, as shown in the chart.



Nonfarm New Dwelling Units Started and Nonfarm Household Formation, 1948-55. (Years Ended April 1.)

Though not as great as indicated heretofore, the gap between housebuilding and household formation still persists. Logically, a marked increase in vacancies might be expected. Yet a recent survey by the Census Bureau shows that the proportion of homes vacant and available for sale or rent is still relatively small, about 2.2 per cent of the total. All three sets of statistics – housebuilding, household formation, and vacancies – are based in whole or in part on sampling and thus subject to error. Nevertheless, the conclusion can hardly be avoided that the amount of homebuilding for replacement has been considerably underestimated.

As the chart suggests, the early postwar period was marked by acute housing shortage, and often newly-formed families had to take temporary accommodations. Many of these accommodations, unsatisfactory by today's standards, are being converted back to their original status or to nonresidential use. In addition, the Bureau of Labor Statistics recently estimated that in each of the past few years approximately 250,000 to 300,000 nonfarm dwelling units have been demolished, condemned, abandoned, or otherwise withdrawn from the housing supply. This further narrows the theoretical gap between available housing and number of new families.

Wages, Prices and Inventories Moving Up

Meanwhile the economy is feeling the stimulus of rising wages, prices, and business inventories. No clear-cut pattern has emerged from

union contract negotiations or from pay raises granted to other private and government employes, but recent settlements have tended to be more liberal than those made earlier this year.

Price increases are still scattered, but showing up more frequently. A number of leading copper producers, faced with wage increases, shortages, and higher prices in foreign markets, advanced their selling price to 43 cents a pound, the highest in 90 years. Other industrial raw materials have moved higher. Building materials have been in an upward trend for approximately a year. Some firms advanced prices during August for farm machinery, television sets, tin plate, industrial fabrics, and miscellaneous rubber products. Steel prices were marked up in July following the wage increases. While so far the softness in prices of farm products and foods has kept the general price level steady, the pressure from rising wages and material costs is increasing.

Meantime, the inventory accumulation, under way since the beginning of the year, appears to be gathering momentum. During the second quarter, according to Department of Commerce figures, total stocks of manufacturers, wholesalers, and retailers were building up at a seasonally adjusted annual rate of $4.5 billion, against $1.5 billion in the first quarter, and a decrease of $4.9 billion as recently as the third quarter of '54.

The actual book value of inventories on June 30, the latest available date, though up $1.9 billion from the December '54 low was still $2.4 billion under the record high in September '53. Nearly half of the increase is accounted for by automobile manufacturers and dealers. Moreover, the rise in total stocks during the first half of the year was considerably less than the rise in sales and new orders booked. Proportionate to sales, business stocks at mid-year were at the lowest level since early '51.

Contrasts with 1953

The foregoing reflects the efforts of business men to restore stocks drawn down too far in '54, to hedge against shortages and lengthening delivery dates, and to bring inventories into line with rising sales. This is in the normal pattern of business recovery, and no cause for alarm providing it is not overdone. Aside perhaps from automobiles, the rise so far appears to have been moderate. In this respect the situation seems less vulnerable than in early '53.

Nevertheless, the build-up of inventories now under way will bear watching. In periods of optimism and rising prices like the present there is always a temptation to reach out too far. It is in this area, together with that of construction, that the restraining influence of the tighter credit situation should be most effective.

Restraint on Credit

The Federal Reserve Banks of Cleveland, Boston, Chicago and Atlanta raised their discount rates effective August 4, initiating a general move by the Federal Reserve Banks to lift rates charged the member commercial banks on their borrowings. By August 12 eleven of the Reserve Banks had increased their discount rates from 1¾ to 2 per cent; the Cleveland Bank had boosted its rate ½ per cent to 2¼. Late in August the Atlanta and St. Louis Reserve Banks raised their rates again to Cleveland's 2¼ per cent level, suggesting that another round of boosts may restore uniformity at 2¼ per cent.

Abroad, too, August brought a spate of discount rate advances; the Bank of Canada raised its rate from 1½ to 2 per cent, the West German Bank Deutscher Lander from 3 to 3½ per cent; and the National Bank of Belgium from 2¾ to 3 per cent. The Bank of England held to its 4½ per cent rate, raised from 3 per cent in two steps earlier this year. Reuters news agency quoted a high official of the Belgian National Bank as saying: "There is really no inflationary position in Belgium comparable to the situation in the United States and Britain, but we wanted to sound a warning against such a tendency and indicate that we are closely watching it."

The fundamental reason for these rate advances is that, with confidence running high, people are spending freely and demands for credit are so swollen as to threaten price stability. The credit demands themselves have brought increases in rates charged to borrowers and earned by savers. The discount rate advances confirm these movements. By making money more costly at the basic source — the central bank with the power of note issue — they also give warning that lenders must exercise more discrimination in granting credit.

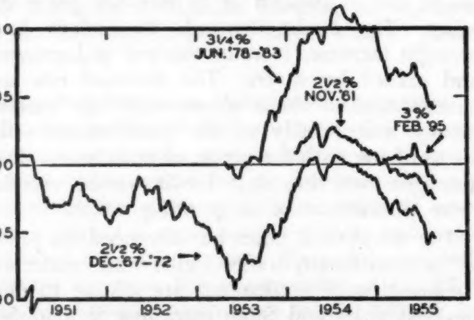
The world-wide boom has advanced the prices of internationally-traded industrial materials. Generous wage settlements are joining to raise business costs and force mark-ups of manufactured goods. Responding to these forces, and to the weight of consumer, business, and government spending, our consumer price (cost of living) index advanced ½ per cent in June and July. There is clear warning of a continuing upward drift in the tautness of the labor market, the degree of cost increases being shouldered

by business, and the willingness of people to borrow to spend. Borrowing to spend increases the national product when unemployed labor can be put to work to satisfy the increase in market demands. It merely brings higher prices when productive resources are fully employed. Hence the need for restraint on the use of credit.

Discount Rate Advances

The August increases represented the second time this year that the Federal Reserve Banks have advanced discount rates. In April the rates were moved up uniformly from 1½ to 1¾ per cent. In February and April, 1954, when business was slack, the rates had been cut in two steps from 2 to 1½ per cent.

At the time the August increases were announced money rates had been working higher and bond prices lower under the pressure of credit demands. A further increase in discount rate was clearly due and the only questions were how long action would be delayed and how much the increase would be. In the week ended August 3 member bank borrowings from the Federal Reserve ran up a daily average of $741 million, highest since 1953. Bond prices were extending their declines, under the influences of expectations of discount rate advance and selling by banks and insurance companies raising funds to lend. On August 3, immediately prior to the sequence of discount rate announcements, a number of leading New York City banks lifted the minimum rate charged prime commercial customers from 3 to 3¼ per cent. This rate had been dropped from 3¼ per cent in March, 1954 when loan demands were weak and Federal Reserve policy was designed to encourage credit and business expansion.



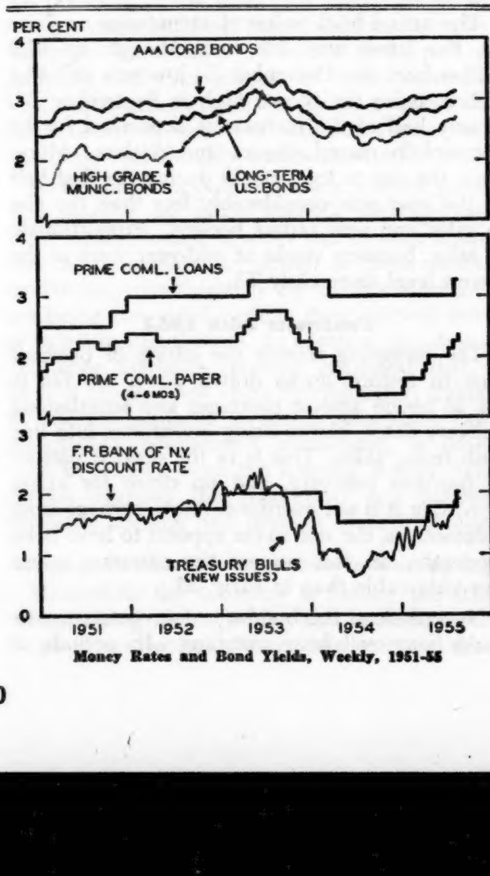
Friday Closing Bid Prices, Selected U.S. Government Bonds (Last plotting for Friday, August 26)

The fact that, in the instance of the Cleveland Reserve Bank, the discount rate was advanced ½ per cent warned that there was some strength of feeling in the Federal Reserve System that the larger increase was justified. However, the rate announcements, holding the advance to ¼ per cent in the major money markets of New York and Chicago, as well as in most other financial centers, relieved the tension of uncertainty and produced a rally in the bond market. The thirty-year Treasury 3s traded down to 98¼ on August 4 but recovered to 99⅝, and, despite the further discount advances in Atlanta and St. Louis toward the close of the month, closed on August 30 at 99.

Bond Prices in the Business Cycle

Bond prices naturally fluctuate inversely to interest rates, commodity prices, and business volumes. When trade, production, and employment expand — as they have done so vigorously this year — commodity prices tend to firm. More money is borrowed to meet payrolls and carry inventory and receivables. Expanding construction enlarges demands for credit. Financial institutions have difficulties meeting the demands of borrowers, are necessarily more selective in granting credit, raise interest rates charged, and pare down bond investments to augment their lending power. Oversupply depresses bond prices; the improved yield offered the buyer, and the losses suffered by the seller, fortify the rising tendency of interest rates.

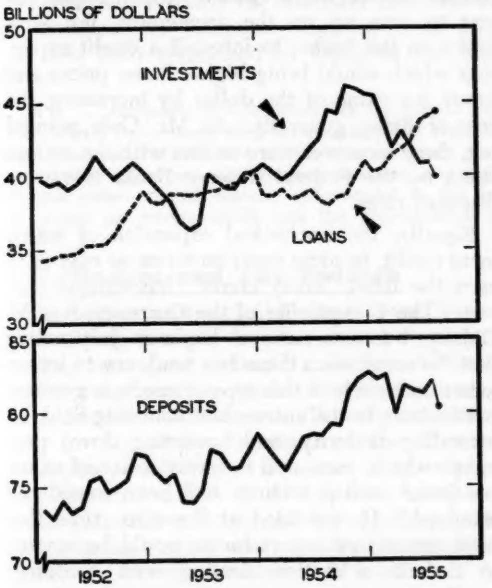
All of these things have happened in 1955. The structure of interest rates and bond yields has worked higher just as it moved lower under the influence of contracting business from the summer of 1953 to the summer of 1954. As the



Money Rates and Bond Yields, Weekly, 1951-55

chart shows, bond yields and interest rates have tended to rise for a full year now.

The third chart, based on the figures of the member banks of the Federal Reserve System that report weekly, indicates the magnitude of the sales of investments that banks have undertaken to accommodate loan demands. In 1954, with the aid of a drop in their cash reserve requirements, banks were able to increase both their loans and investments with the effect of enlarging their deposits. This year deposits have been held down by the fact that the Federal Reserve has been less willing and eager to supply funds and buyers of securities sold by banks have drawn upon their deposits to pay for them.



Weekly Reporting Member Bank Loans*, Investments and Deposits†, 1952-55
(Plotted for last Wednesday of each month)
*** Excluding loans to banks. † Excluding interbank deposits.**

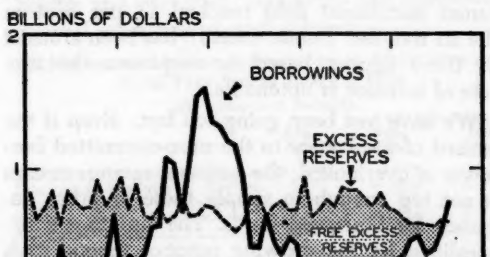
The Discounting Facility

Even without cutting bank reserve requirements, the Federal Reserve could have made loan expansion easy by purchasing government securities in the open market, supporting their prices, and adding to the cash supply. As it is, the Federal Reserve portfolio of government securities, at $23.8 billion on August 24, was about even with the figure of a year previous.

The authorities, however, have given banks access to additional funds through borrowings at the discount rate. As it was intended to do when the Federal Reserve System was set up, the discounting facility contributes elasticity to credit supply and moderation to money rate movements. Booming credit demands and booming business would have raised interest rates even more if it had not been possible for banks—at comparatively low cost—to borrow from the Federal Reserve to supplement their loan resources. Borrowings by banks from the Federal averaged above $700 million last month compared to only $115 million in August, 1954.

The need to borrow, nevertheless, introduces elements of restraint. Borrowings remind banks that the supply of loan funds is not unlimited but is dependent on the willingness of the Federal Reserve to add to the monetary base. Unlike money the Federal puts in the market by buying government securities, the money that banks borrow has a string on it. Borrowings entail an obligation to repay, exposure to the risk of a rise in the rate, and exposure to the risk of criticism for overlending. Chronic borrowing by any particular bank may lead the Federal Reserve, after studying the loan and investment policies of the bank, to refuse to lend funds desired. When credit is in eager demand and borrowings from the Federal are heavy this can be strong medicine. Much of the tension built up in the money market in the spring of 1953 was attributable to fears, induced by criticisms of borrowings, that the discount window was being shut down.

Although the 2 per cent discount rate of that period has been put back in force, and some Reserve Banks have gone to 2¼ per cent, there are none of the apprehensions then current that money might be unavailable to finance autumn trade expansion. The criticisms being heard are not that the Federal Reserve's measures of restraint are too vigorous; rather, as Edward H. Collins noted in his column in the *New York Times* on August 15: "There is at least a budding tendency to ask today . . . whether the Reserve, recalling the severe criticism to which it was subjected [in 1953], isn't, consciously or unconsciously, proceeding somewhat overcautiously in this, its second bout with incipient inflation."



Member Bank Excess Reserves and Borrowings, 1951-55
(Monthly averages of daily figures)

Areas of Danger

One of the most significant developments of the summer has been a widening recognition of the fact that prosperity — as almost inevitably it will under easy money conditions — has tended to speed off into wage and price inflation. The Government cannot tell people how they shall spend their own money. But the Federal Reserve authorities can — and they must if we are to preserve stability — limit the use of their credit facilities and thus control the spending of borrowed money. Federal Reserve actions penetrate all of the markets for credit and money.

Last winter and spring concern was felt for the ascent of stock prices aided by increased margin purchases. Customer debit balances of members of the New York Stock Exchange rose nearly $1 billion in the year ended April 30. Since then, under the influence among other things of increases in margin requirements and discount rates, the debit balance figures have flattened out. Stock price averages have been fluctuating below their best levels of the year, reached during July.

The really phenomenal increases have been in the areas of home mortgage and instalment debt, as the following table shows:

Debt Expansion in Selected Areas, 1953-55

(In billions of dollars)

	June 30, 1955	Changes: 1st half, 1955	1954	1953
Home mortgage debt	$82.8	+$6.9	+$9.6	+$7.6
Consumer instalment debt	24.9	+ 2.4	+ 0.3	+ 3.5
Fed. Res. member bank coml. and ind. loans*	26.9	+ 1.9	— 0.5	— 0.7
Fed. Res. member bank agricultural loans	2.8	— 0.7	+ 0.3	+ 1.1
Customers' debit balances, N.Y.S.E.	2.7	+ 0.3	+ 0.7	+ 0.3

* Involves some double counting of consumer instalment debt since sales finance company borrowings from banks are classified as commercial and industrial loans. Increased sales finance company borrowings are estimated to have accounted for one-third of the rise in the first half of 1955.

The $6.9 billion rise in home mortgage debt represents a 9 per cent increase simply for six months of 1955; it suggests an expansion for the year of $13 or $14 billion, far ahead of 1954's $9.6 billions, already a record. The rise in consumer instalment debt reached 11 per cent in the six months. Public concern has been aroused by these figures, based on suspicions that the rate of increase is untenable.

We have just been going too fast. Even if the hazard of insolvency to the over-committed borrower is overlooked, the national savings stream is not big enough to supply these or other demands for borrowed funds. The situation is exemplified by the growing practice among such institutions of "warehousing" mortgages with banks who in turn must rely on the Federal Reserve for supplements to their loan funds.

The Administration, disturbed among other things by the rising curve of building costs, has taken some appropriate actions with respect to government programs. On July 30 the Federal Housing Administration and Veterans Administration announced that, effective immediately, the maximum maturity of insured home mortgages would be reduced from 30 years to 25 years. At the same time the Veterans Administration abolished, with some exceptions, no down payment loans and the FHA increased its minimum down payments from 5 to 7 per cent on the first $9,000 and from 25 to 27 per cent on the excess.

Housing Administrator Albert Cole, in a speech on August 9, stated that the purpose was to ease up on the accelerator, not push down on the brake; to forestall a credit expansion which would bring higher home prices and lower the value of the dollar by increasing the cost of living generally. As Mr. Cole pointed out, these measures were in line with the actions taken by the Federal Reserve Banks in raising discount rates.

Equally, the unchecked expansion of instalment credit, in some cases on terms so easy as to earn the label, "crazy credit", has caused concern. The Comptroller of the Currency, Ray M. Gidney, wrote to national banks in July noting that "in some areas there is a tendency to loosen terms under which this type of credit is granted, particularly in the automobile financing field, by extending maturity, and accepting down payments which, measured in terms of actual value, are lower than previously had been considered standard." He revealed at the same time that bank examiners' report forms would be revised to include a section dealing with consumer credit.

On August 9-11 members of the Federal Reserve Board met with delegations of sales finance company and bank executives to discuss the mounting volume of instalment borrowings. The General Motors Acceptance Corporation simultaneously issued a warning to its dealers to "go slow" in extending more easy credit to car buyers, and pointed out how cutting down payments from one-third to one-fourth, and prolonging the repayment term from 30 to 36 months, increase the risks of repossession, hurt repeat buying, and add to the customer's costs.

Optimism Running to Excess

The discount rate and other official actions taken to restrain credit expansion are not intended to deny access to borrowed money for soundly conceived, useful projects. The ques-

tion is one of discouraging marginal and additional projects that compete with more soundly conceived and useful projects and raise prices against everybody. After all, supplies of labor and materials have limits; rising business costs and prices signalize in the free economy that we are trying to do too much, saving too little, drawing excessively on our credit lines, and over-committing ourselves. A sensible optimism is an essential to prosperity. Optimism running to uncontrolled excess has been our historical path to disaster. It is well that the authorities are acting to contain forces that, running out of hand, can be our undoing.

Secretary of the Treasury George M. Humphrey eloquently stated the needs of the moment in discussing the temporary increase in the public debt limit authorized by Congress last June 30th:

> It is . . . important in a situation like the present that the Federal Government itself set an example of economy and prudence. We believe at this time of great prosperity that all of us — Government, business, and individuals alike — should exercise self-restraint in the use of public or private credit and the accumulation of debt.

U.S. Budget and Tax Outlook

Revised estimates of U.S. Government expenditures and receipts for the current fiscal year ending next June indicate a further reduction in the deficit, raising hopes of another reduction in federal taxes next year. New figures issued late in August by Secretary of the Treasury Humphrey and Budget Director Hughes place the expected deficit at \$1.7 billion, compared with \$2.4 billion estimated last January when the original budget was submitted to the Congress, and an actual deficit of \$4.2 billion in the fiscal year 1955. The excess of outgo now expected will be the smallest in five years and contrasts with the post-Korean peak of \$9.4 billion in fiscal '53.

U.S. Government Budget Expenditures, Receipts and Public Debt for Fiscal Years Ended June 30
(In Billions of Dollars)

	Fiscal 1953	Fiscal 1954	Fiscal 1955	Fiscal 1956 Jan. Est.	Fiscal 1956 Aug. Est.
Expenditures:					
Major national security	\$ 50.3	\$ 46.5	\$ 40.4	\$ 40.0	\$ 38.7
All other	24.0	21.3	24.1	22.4	25.1
Total	74.3	67.8	64.5	62.4	63.8
Receipts	64.8	64.7	60.3	60.0	62.1
Deficit	9.4	3.1	4.2	2.4	1.7
Public debt, June 30	\$266.1	\$271.3	\$274.4	\$276.0	\$275.0

The cut in projected deficit is due entirely to a rise of \$2.1 billion, to a total of \$62.1 billion, in estimated tax collections, reflecting the sharp recovery of general business activity and the rise of corporate and individual incomes to new record-high levels.

Government expenditures for this year are lifted in the revised estimates by \$1.4 billion to a total of \$63.8 billion, but are still put at \$700 million less than was actually spent in the fiscal year just closed, as shown in the foregoing condensed summary of budget and debt totals.

Major Changes This Year

This midyear revision of the budget gives effect on the spending side to the actions by the Congress during its 1955 session.

The major national security programs still comprise a predominant share — 61 per cent — of the total budget expenditures and are estimated at approximately \$38.7 billion. Some national security activities such as continental defense will demand record high outlays, but selective reductions in other defense activities, including foreign military aid and stock-piling, make possible the decline in the total of national security programs by \$1.3 from the January estimate and \$1.7 from the total actually spent in fiscal '55.

Expenditures on all programs other than major national security are now estimated at \$2.7 billion higher than last January and \$1 billion higher than fiscal '55. A large share of the increase is accounted for by a rise in outlays by the Department of Agriculture through Commodity Credit Corporation for loans and purchases to bolster prices of farm products. Such outlays, although up \$1.1 billion from the earlier estimate, are expected to be lower by \$1.1 billion than in fiscal '55 due to somewhat lower price support levels, more stringent acreage restrictions, sizable financing of surpluses by banks rather than the CCC, and net liquidation of some commodities.

Expenditures on a number of other major government programs now indicate substantial increases over both the January estimates and the fiscal '55 results. These include, as shown in the table, veterans' services and benefits; welfare, health, and education; commerce and manpower; general government, and interest.

U.S. Government Budget Expenditures by Major Programs, Fiscal Year Ending June 30, 1956
(In Millions of Dollars)

	Aug. Est.	Changes from Jan. Est.	Changes from 1955 Actual
Major national security	\$38,750	—1,258	—1,665
International affairs & finance	2,121	+ 339	— 63
Veterans services & benefits	4,839	+ 199	+ 383
Welfare, health & education	2,425	+ 113	+ 152
Agriculture	3,380	+1,121	— 995
Natural resources	1,023	+ 70	— 52
Commerce & manpower	2,760	+ 574	+ 665
General government	1,667	+ 101	+ 503
Interest	6,765	+ 387	+ 308
Reserve for contingencies	100	— 235	+ 100
Total	\$63,832	+1,424	— 662

Increases over the January estimates, but decreases from last year, were shown for international affairs and finance, reflecting the reduced need for economic and technical aid to Western Europe; also for natural resources, reflecting the completion of construction outlays on Tennessee Valley power plants and a growth of their operating revenues received.

The revised budget figures indicate further progress toward the goal of a balanced budget repeatedly set forth by President Eisenhower and endorsed by many Congressional leaders in both political parties. Secretary Humphrey and Budget Director Hughes made it clear when presenting the revised estimates that they had by no means given up hope of an actual budget balance in the current fiscal year which still has ten months to run. They pointed out that a reduction of less than 3 per cent in expenditures as presently estimated would accomplish this.

A Revival of Economy

There are two clear threats to the achievement of a balanced budget. First, there is the difficulty of controlling expenditures, vividly illustrated by the $1.4 billion increase over the January estimate in fiscal '56 outlays. Secondly, there will be the temptation to Congress, meeting next January in a presidential election year, to shave taxes unwisely and prematurely.

It is a fine thing to have people concerned about the weight of taxes; that concern, within a balanced budget, is the prime force demanding efficiency and restraint in government outlays. It is another thing to cut taxes with an unbalanced budget and borrow the money on the public credit to return to the taxpayer. In times of slack business unbalanced budgets often have to be tolerated; tax cuts and reforms may even be necessary to get the economic machinery turning. But, as Secretary Humphrey and Budget Director Hughes declared:

> In times like the present, with the highest employment and the most jobs ever in the history of this country, the highest personal disposable income, and records in profits, wages, earnings, and production, if there is ever a time when our budget should be balanced, it is now.

How to Cut Taxes

The right formula for getting taxes down is plain enough. It is to tackle appropriations with the zeal which the present Administration applied when it first went into office and in two years knocked annual outlays down by $10 billion. The threatened reversal of the tide is explained in an Associated Press dispatch dated August 28 and quoting an unnamed Administration official as saying:

> Our people came in here and cut spending. But then programs came along in each department that they got interested in and began to plug. Their spending estimates have consequently begun to rise.
>
> We have got to hit the sawdust trail and have a real old-fashioned revival of economy without damaging our defense set-up or essential services.
>
> There is enough room in waste and duplication to do this, and everybody is being told to find that room, and cut.

This is the way to cut taxes, without jeopardizing the stability of the economy and of the dollar.

65 Million Jobs

In 1945 Henry Wallace, then Secretary of Commerce, wrote a book entitled *Sixty Million Jobs.* In it he proposed that figure as a postwar employment goal for this country in periods of full prosperity. At the time, Mr. Wallace's projection was greeted with much skepticism—even ridicule. People called it fantastic.

Yet in July 1955, just ten years later, employment in the U.S. made history by reaching, not 60 million but 65 million. According to the regular monthly report issued jointly by the Departments of Commerce and Labor, the more precise figure was 64,995,000.

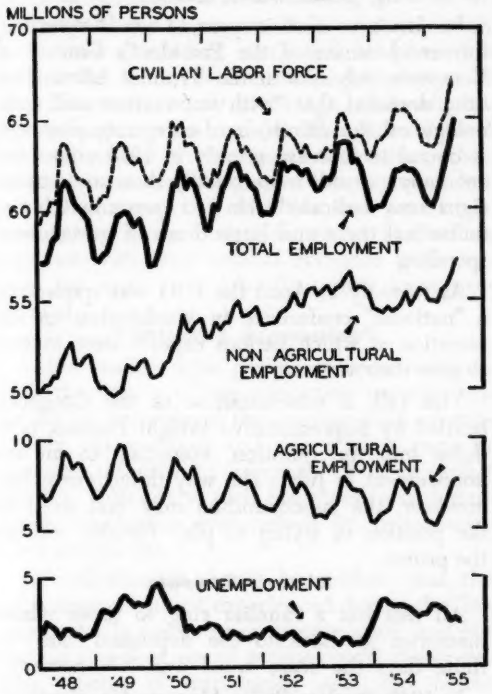
Never before in this country have so many people held jobs. The total in July was up 1 million from the previous record high set one month earlier in June, and a gain of 5 million from the recession low in the winter of '54. It was the fifth successive monthly increase this year. Of particular interest is the following official statement issued in conjunction with the figures:

> The rate of employment increase during the last five months has not been matched since the postwar reconversion year of 1946. Some 5,000,000 persons have been added to the employed total since February 1955, as compared with an average spring and summer rise of 3,000,000 in the 1947-54 period.

Reflecting this impressive increase in employment, the number of persons reported as jobless, which usually holds stable in July, declined 200,000 to 2,500,000, the lowest since the onset of the recession in mid-1953. The government agencies reported brisk hiring of school-age persons, primarily in trade and service activities, as accounting for most of the employment gains in July. It was noted, however, that unemployment among family breadwinners has declined rapidly since early this year. Unemployment among people who had been out of work fifteen weeks or more continued to drop sharply, num-

bering some 586,000 in July against 849,000 a year ago.

The accompanying chart traces the official statistics on employment and unemployment in this country since 1948, and compares both series with the growth of the "civilian labor force", i.e., those having jobs or seeking them.



Labor Force, Employment and Unemployment

It will be seen that, despite the steady increase in the total labor force over the period, the great majority of these people have found jobs, witness the rise in employment to new peaks.

People at work in agriculture and in nonagricultural occupations have both increased this year, the fluctuations in the former reflecting mainly seasonal influences.

A distinctive feature shown in the chart is the divergent trend of these two great occupational divisions, continuing an evolution under way for many years. With the advances in farm technology making possible the satisfaction of our needs for food and fiber with fewer and fewer workers in agriculture, more and more of our people are finding employment in the nonagricultural activities where opportunities for growth in satisfaction of human wants are without limit.

It is true that over-all unemployment figures are still somewhat higher than in 1948 and during the 1950-52 Korean war boom. But the labor force today is, as the chart shows, substantially larger than in those earlier periods. Just what constitutes a safe minimum level of unemployment – the so-called "frictional unemployment" – beyond which there is risk of impairing flexibility in the labor force and productive efficiency is a disputed question, but already bottlenecks are appearing at various points and adding to inflationary pressures.

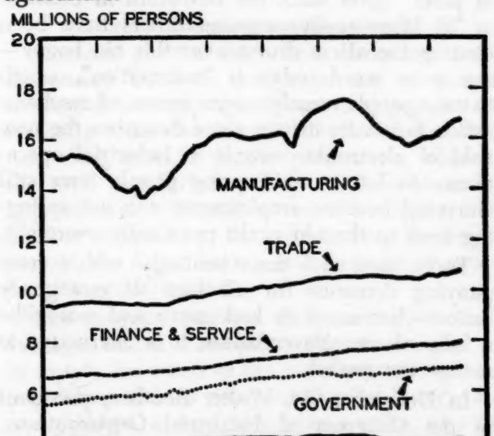
Gains Widespread

While government sources stress the hiring of out-of-school youngsters in trade and service as the major factor in the June-July boost in employment, a feature of the report is the vigorous recovery shown in most major nonagricultural lines – particularly when looked at over several months.

The number of employes on manufacturing payrolls, 16,600,000, held steady during July as continuing expansion in factory activity about offset the effect of vacation shutdowns. But since January, the employment uptrend has resulted in the addition of more than 500,000 workers to factory rolls, the largest January-to-July gain since 1950.

In the nonmanufacturing lines, better-than-seasonal gains were recorded in finance and service, while trade employment did not show its usual summer letdown. As a result, employment in these fields reached record July levels.

The next chart gives in more detail and over the whole period since 1948 the employment trend in major sectors of the economy other than agriculture.



Employment in Nonagricultural Establishments by Major Divisions, Seasonally Adjusted

Employment in manufacturing, which experienced the sharpest dip during the recession, remains – despite the strong comeback this year – below the 1953 peak. At the same time, however, employment in other categories, notably trade, finance and service, and government, has continued to forge ahead – the rise in government jobs reflecting mainly expanding state and municipal activities, highways, schools, etc.

Looking back over the whole period to '48, it will be seen both from the chart and the following table that, compared with that active business year, most of the major nonagricultural groups – including manufacturing – have continued to grow and employ more workers.

Employes in Nonagricultural Establishments
By Industry Divisions
(In Thousands)

	Average 1948	July 1955*	Per Cent Change
Manufacturing	15,321	16,715	+ 9.1
Wholesale & retail trade	9,519	10,756	+11.3
Finance and services	6.666	7,930	+19.0
Government	5,650	6,929	+22.6
Transportation & public utilities	4,141	4,056	— 2.1
Contract construction	2,169	2,542	+17.2
Mining	982	756	—23.0
Total	44,448	49,684	+11.8

* Seasonally adjusted.

Thus the over-all result has been the closing of the unemployment gap and the absorbing of more and more people into gainful employment, to establish the new record total of "65 Million Jobs".

The Automation Bogey

The question is, where does this leave all the hue and cry over "machines putting people out of jobs?" Ever since the downturn in business in '53 labor spokesmen and others have been beating the alarm drums over this old bogey – the scare word today is "automation", which to most people merely means increased mechanization but in its stricter sense describes the new field of electronic controls in industrial operations. As late as this spring people were still worrying because employment was not springing back to the old peaks practically overnight.

To be sure, such drum-beating – with accompanying demands for all sorts of emergency action – has come to look more and more like a false alarm. Nevertheless, it is instructive to review the record.

In December '54, Walter Reuther, president of the Congress of Industrial Organizations, warned that push-button factory production threatens the nation with mass unemployment. Citing a number of "startling" advances in technology, Mr. Reuther mentioned a new Ford engine block assembly line producing as many units with 41 men as once required 117, a factory turning out 90,000 light bulbs an hour, a modern steel plant where 6,500 workers can match output with 11,000 in older mills, and self-dialing long-distance telephone service. Mr. Reuther called for higher wages to expand purchasing power, reduced taxes for lower income families, and increased government spending for housing, public works, etc.

In January of this year, Leon Keyserling, former chairman of the President's Council of Economic Advisers in the Truman Administration, declared that "with automation and technology on the march, hard-core unemployment is bound to increase greatly in 1955 unless the economy expands more rapidly than any current signs now indicate." He too prescribed lower individual taxes and large doses of government spending.

As recently as April the CIO was sponsoring a "national" conference in Washington on automation at which various experts were invited to give their views.

This fall, a subcommittee of the Congress, headed by Representative Wright Patman, is to delve into the question, according to an announcement in July. The way things are going, however, the subcommittee may find itself in the position of trying to play Hamlet without the prince.

History Repeats

All this has a familiar ring to those whose memories go back to the depressed '30s. In those days the scare word was "technocracy".

In 1940, the late Philip Murray, Mr. Reuther's predecessor as head of the CIO, was frightening people with similar stories about the effects of mechanization. Testifying before the Temporary National Economic Committee of the Congress, he declared that in ten years machines had displaced from 1,000,000 to 2,500,000 workers in industry, while in the steel business alone 30,000 had been displaced, with an additional 40,000 scheduled to lose jobs "within a few years." Mr. Murray even proposed Congressional regulation of the introduction of large technological changes.

Appearing before the same committee, George Harrison, president of the Brotherhood of Railway Mail Clerks, testified that machines had reduced railroad jobs by 626,000, and Thomas Kennedy, secretary-treasurer of the United Mine Workers, was worried about the effect of technological advances on mine employment.

Even the dial telephone, then already growing in use, came in for complaint, a representative of the Commercial Telegraphers' Union

charging that it had permanently displaced 150,000 women operators.

The press also reported examples such as automatic steel rolling mills, where it was asserted that 126 workers in an automatic strip mill had been found able to produce as much tonnage as 4,512 workers in hand mills – a 97 per cent reduction in man-hours.

The truth is, of course, that employment in most lines (including steel and telephones) – and in the total – is incredibly greater than it was fifteen or twenty years ago when all this talk was going the rounds. The railroads and coal mines are a story unto themselves; they illustrate, not technological unemployment, but growth of competing facilities and products – the motor car and oil and natural gas, which together with their related activities have created far more new jobs than they have supplanted.

"Obituary Accounting"

Labor leaders who profess so much concern over the effects of mechanization on jobs can hardly be unaware of the consequences of constantly rising wages and other labor costs in spurring industry to adoption of labor-saving devices. Inevitably, such pressures force industry to mechanize and reduce its dependence upon manpower.

Nevertheless, it should be evident that the mass unemployment experienced during the '30s was basically a depression phenomenon, and not due to speeding up of technological discovery. The process of introducing new and better methods – in manufacturing, in the great and growing service industries, and in agriculture – is one that has been going on for generations. It hasn't come about suddenly, nor in all industries at the same time.

Indeed, while the trend has varied from time to time and from industry to industry, the surprising thing has been the steadiness of the over-all rate of increase in productivity of the U.S. economy – the total amount of goods and services produced per man-hour – over long periods. According to studies by Dr. John W. Kendrick of the National Bureau of Economic Research, the figure for the period 1909-1950 was in the neighborhood of 2 per cent a year. And Dr. Kendrick observed: "The remarkable stability of . . . the trend of productivity over a period during which much cumulative change has taken place leads me to believe that only radical social change would be likely to alter past trends substantially."

The steady growth in output per man-hour, made possible by improvements in methods and equipment, has reduced costs while permitting sweeping increases in "real" incomes, opened up vast new markets, created millions of new jobs, and provided the immense variety of goods and services that we now enjoy. While temporary dislocations of workers are inevitable in a progressive society in which industry itself is undergoing constant change, such displacements are normally absorbed in other occupations.

Yet periodically, whenever business sags in one of its cyclical dips, the old cry of "machines putting people out of work" is heard again.

At the CIO conference on automation mentioned above, John Diebold, editorial director of "Automatic Control" magazine and one of the country's authorities on the subject, summed up the case well when he called concern over the adverse labor effects of automation "obituary accounting." He explained this term as "toting up the number of workers replaced by a machine, multiplying that sum by the number of machines, and tagging the end result 'unemployment'." As he went on to point out:

> This practice assumes that only a set number of jobs exist in our economy and ignores the fundamental fact that our needs increase continually. To ignore this fact is to sell short the marvellous capacity for growth and production that has been at the heart of American industrial expansion.

Labor Surplus or Shortage?

A central point in this whole discussion is the downward trend in the proportion of people coming of working age to our total population, resulting from the low birth rate of the '30s. According to U.S. Census projections, whereas the total population will by 1965 increase by approximately 25 million to 190 million, the number of age 20 to 64 – constituting the major part of the labor force – will increase by only 8 million to 99 million.

This suggests that we shall need all the advantages that technological progress can give us to supply the wants of our rapidly growing total population with its rising standard of living. Our real problem, instead of a labor surplus, may be a labor shortage.

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